

# **ECONOMICS AND PLANNING**

José Felix Tobar-Arbulu

*"The will to national independence is the most powerful force in our time."*

John Kenneth Galbraith

## 1. INTRODUCTION

Toward the end of the last century when the term "economics" came into use, the government was largely excluded and producers and consumers came together in the market; the market was the all powerful regulatory force of society. The science of economics was born in a world where distrust of the state was based on the assumption that the urgent needs of life (food, clothing and housing) were all to be satisfied in the private sector. In a modern society, however, distrust of the state is no longer comprehensible in the view of the demonstrated failure of the private sector to satisfy fundamental individual and social needs. (Housing is a clear case of inefficiency and of market response unrelayed to social need.)

Now we know that there is no border between politics and economics (Galbraith 1967-78, 1973-75, 1983a, Leontief 1982a). The distinction between economics and politics is now an artificial one. Economic problems are related to political ones, and in particular to power. Thus Galbraith contrasts the power of the large, huge corporations—which manifest itself in corporate planning—with the power of the market. According to him (Galbraith 1973-75) there are two types of contradictions in all modern industrialized societies:

- (i) those between the interest of the "planning system" and society; and
- (ii) those between the "planning" and the "market" systems.

The main contradiction in modern societies is not between classes, but between the two economic systems: the "planning system" related to big corporations, and the "market system" related to small enterprises. In both socialist and capitalist countries large-scale enterprises coexist with small-scale production. Such duality is unavoidable, for while large organizations undeniably perform better in some fields (i.e., technologically-advanced, capital-

intensive industries), small organizations unquestionably perform better in others (i.e., where individual craftsmanship is required). Thus the socialist countries “are making somewhat greater use of private initiative for small-scale activities” (Galbraith and Salinger 1979 p. 29).

The modern economy is a *bimodal* one in which the members of the “market system” are price-takers while the members of the “planning system” are price-setters, and where the latter (being large and powerfully) are consequently able to dictate prices (both for inputs and outputs) for the former (who are small and weak, and in addition starved of State support). This, at the world level, is the contradiction between the North (industrially developed) and the South (underdeveloped) (Galbraith 1983b). The result is clear: “The will to national independence is the most powerful force in our time” (Galbraith 1983b p. 36). The new countries, “reject domination by either of the great powers and ask only for the same right of self-determination desired by all nations, old and new” (Galbraith 1983b p. 45).

As Galbraith states (1973-75 p. 173), “The planning system [i.e., the corporation-dominated part of the economy], in the absence of state intervention, is inherently inestable” (1). The old financial oligarchy, blamed by Lenin and present-day Soviet economists, has given room to the *technostructure* with economic and political power over the “market”. As Galbraith suggests (1967-78), the historical development depends on what role a particular factor of production plays in a particular epoch. Initially that factor was *land*, which predetermined a whole era of agrarian economy; then *capital* became that factor, which led to the transition to an era of capital analyzed by Marx; and finally, the *technostructure* began to play that part —i.e., the management of large corporations. According to Galbraith (1967-78, 1973-75), the “technostructure” is the vehicle of large corporations, which control supply and demand, provision of capital and minimization of risk in the so-called “planning economy”. “Power has, in fact, passed to what anyone in search of novelty might be justified in calling a new factor of production” (Galbraith 1967-78 p. 53): the technostructure. The technostructure occurs both in the West and in the East. In fact, large corporations have similar imperatives whether in the West or in the East: the same organizational structure and communal need for planning respond to the same technological needs. “The decisive power in modern industrial societies is exercised not by capital [as stated by Lenin and modern Soviet economists] but by the industrial bureaucrat. This is true in the Western planning systems. It is also true in the socialist countries” (Galbraith and Salinger 1979 p. XIV). The possession of capital is now no guarantee that the required technostructure can be organized. Since technology and planning are what accord power to the technostructure (Galbraith 1967-78), the latter will have power wherever these are a feature of the productive process within either the capitalist or the socialist system. (*Caveat*: “Decentralization in the Soviet-type economics involves not a return to the market system but a shift from planning functions from the state to the firm. [...] There is no tendency

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(1) The problem of the state is the main difficulty, for the big corporation is closely tied in with the state. For Galbraith (1973-75 pp. 207-306), today the main stake is on reform. The state also should be an object of reform.

for the Soviet and the Western systems to converge by the return of the former to the market. Both have outgrown that. There is measurable convergence to the same form of planning” (Galbraith 1967-78 p. 100).)

The policy of national economic planning should have the following goals:

- (a) agreement between lines of economic policy from the standpoint of attainable strategic goals;
- (b) reliable economic information of the effects of individual events or government intervention in the economy as a whole; and
- (c) the arrangement of research to bring out the problems that could arise in the future.

Let us take a look at some different models of economic planning.

## 2. THE STALINIST ECONOMIC MODEL

The Stalinist model of development includes:

- (a) rapid industrialization;
- (b) concentration on heavy industry; and
- (c) central planning.

The concentration on heavy industry —such as steel and machine tools—, cutting the resources that might go to agriculture, light industry and the consumer in order to increase capital investment, leads to accumulate the necessary resources for the growth in the heavy industry.

The planners found it necessary to set investment mainly from the agricultural sector. Consequently, consumption and consumer goals were given a low priority. In Stalin’s primitive accumulation, agriculture and the peasantry were forced to finance the bulk of accumulation needed for this industrialization. Likewise, investment for housing and other consumer goods was postponed in favour of investment for heavy industry. This in itself imposed an enormous burden on day-to-day life.

The Soviet record was impressive, particularly given the fact that much of the rest of the world was then suffering from the Great Depression. While Western Europe and the United States were contending with levels of unemployment of 25 per cent or more and negative economic growth, the Soviet Union found itself with GNP growth-rates of 4 to 5 per cent and rapidly disappearing unemployment (Goldman 1983 p. 21).

Led by economist E. G. Liberman some reforms were made in the 1960’s. Factory managers were to continue to operate with the prices established by planners, but they were to sell their output and buy their input, rather than merely deliver or accept them. This meant that each factory was to be responsive to the particular needs of its customers if it wishes to dispose of its output. In the same way, its own suppliers would have to be responsive to the factory’s needs if the suppliers were to get the factory’s business. The profit would not belong to the factory or its managers, but to the state. A portion of the profits would indeed be allocated for bonuses and other rewards, so that there would be a direct incentive to run the plan efficiently.

In the Soviet Union, however, there exists an enormous private black market, or "second economy", that some estimate to amount to as much as 25 per cent of the GNP (Goldman 1983 p. 55).

Even if the Soviet planners do decide to switch resource allocation in favour of consumer goods [the Eleventh Five-Year Plan specifies that the output of consumer goods (production of Type B goods) is to increase at a faster rate than the output of producer goods (Type A goods)] that will not be enough. It is not only a question of producing more and better food and manufactured goods for the consumer, but also to ensuring that such goods are delivered to the consumer in a more efficient and pleasant way [services]. That will require both an increase in funds allocated to services and a change in attitude.

Soviet planners have traditionally held down investment in services (Goldman 1983 p. 177). Reflecting Marxist approach, services are generally regarded as nonproductive. Most services are even omitted from Soviet calculations of the GNP (Goldman 1983 p. 178). It always has seemed to be ideologically more satisfying to devote resources to production rather than to fancy warehouses, stores, or restaurants.

### 3. PERESTROIKA

Since 1986, however, a new kind of economic development is taking place in the Soviet Union.

*Perestroika* is a program affecting Soviet society at a host of points. It departs from the recognition of two great deficiencies that have hampered development of the soviet economy:

First the overcentralization of economic decision-taking. (It is recognized that the myriad of decisions essential to the smooth working of a great modern economy cannot all flow from one center, and that a great proportion of them have to be delegated to people down the line, even if at the cost of a certain impairment of central governmental control.)

Second, the recognition that Soviet economy cannot be made to function as it should (and indeed as it must, if it is to compete with the economies of the great powers) until there can be implanted a greater measure of what Gorbachev himself (1987) calls "inner stimuli".

Hence: decentralization of the power of economic and in part political decision-taking, and the encouragement of what Gorbachev thinks of as democratization all down the line. This last means a greater measure of consultation. The form this program takes can be summarized by Gorbachev himself: "Many things are unusual in our country now: election of managers at enterprises and offices; multiple candidates for election to Soviets [i.e., local government-organs] in some districts; joint ventures with foreign firms; self-financed factories and plants, state and collective farms; the lifting of restrictions on farms producing food products for enterprises and run by them; wider cooperative activities; encouragement of individual enterprise in small scale production and trade; and closure of non-paying plants and factories operating at a loss; and of research institutes and higher educational establishments working inefficiently".

These reforms will probably be greater in their application to agriculture, where they envisage measures as drastic as the restoration of the independent family farm, than in their application to industry.

Even more far-reaching are the changes of approach in foreign relations. They include not only extensive reversals of established policy but actual revisions of basic Marxist orthodox postulates. Admitting that the class-motivated approach to all phenomena of social life was once the ABC of Marxism, Gorbachev now asserts that the nuclear weapons has changed all that. Class confrontation, once the final determinant of all social-political development, now for the first time finds itself confronted with an objective limit. Unable to advance beyond that limit, it is being supplanted by what Gorbachev calls a real, not speculative and remote, common human interest —the need, that is, to save all humanity from nuclear disaster. Traditional Marxist logic had it that imperialism inevitably engendered major arms confrontations, the ultimate outcome of which would be social upheavals; and these, in turn, would finish off the capitalist system for good and thus establish global peace. According to Gorbachev this logic is not valid. The cause and effect relationship between war and revolution has itself fallen victim to the harsh realities of the nuclear age. Political and ideological competition between capitalist and socialist countries will of course continue; but “it can and must be kept within a framework of peaceful competition which necessarily envisages cooperation”. Hence the necessity of “a new dialectic of the common human and class interests and principles in our modern age”. (Something that was advanced some time ago by Sakharov (1968).)

For the leader of a movement that regards Marx as the creator and inspirer of a revolution from which it derives its origin these are not only strong words but words of great theoretical import. And the practical conclusions to which they relate, when it comes to the nuclear arms race and its implications for policy, are no less far-reaching. The nuclear weapon is recognized as a suicidal nuclear weapon, capable of bringing nothing less than disaster to whoever might venture to use it. So long as it remains in national arsenals, and to the extent that it does, it is a menace to all of us. Nor is there any security to be gained from the effort to diminish the security of anybody else. The other fellow's security is in fact one's own. The striving for military superiority thus serves no purpose. This is a far cry from the once fashionable doctrine that a formidable offensive posture was the best deterrence.

#### 4. THE HUNGARIAN EXPERIENCE

Hungary is short of energy —and raw materials which have to be imported. The internal market is small. The Hungarian economy cannot, therefore, be closed; it is dependent on the world economy. The economic duties of Hungary in the eighties (Balassa 1985 p. 48) meant that a modern economic and planning mechanism had to start which assist better adjustment to world economic processes and a more efficient economic growth. Hungary has developed a greater consensus for its political and economic goals than any other country in Eastern Europe.

Balassa has dealt with planning and economic policy in today's Hungary, where *indicative guidelines*, instead of command planning, are used. According to him (1985 p. 46), "The Hungarian planning system and its methods make use of the experience of other countries —primarily the socialist countries, but also of other countries that are engaged in planning. (...) some of the Hungarian economists (...) reached the conclusion that in the circumstances of the Hungarian economy [the Soviet planning practice] required substantial modifications". (The Soviet plan expressed mandatory instructions to firms, determining in instructions the distribution of resources, production and sales. This is called the *directive* system of planning.)

The Hungarian economic mechanisms organically connects the planned-control with the market-, commodity- and monetary relations. The autonomy of the economic units is gradually increasing. Central planning is no longer effected through instructions [as in the Soviet model] but by economic regulators. The state no longer fixes production and selling duties, it does not distribute the resources among producers by administrative methods.

Thus, the main characteristics of the Hungarian planning system includes "planning activities on various levels for the country as a whole, planning by the economic units, as well as planning by the country and municipal councils" (Balassa 1985 p. 48).

Planning on the national economic levels means planning by the state. It includes the formulation of the economic policy, which provides *guidance* for national economic planning, including both economic targets and instruments.

The target system of socioeconomic evolution includes:

- (a) the general lines and priorities of economic policy;
- (b) the resources, rate and proportions of economic growth;
- (c) the directions of fundamental structural changes in production, the infrastructure and external economic relations;
- (d) the main requirements of external and internal equilibrium;
- (e) the main principles and proportions of the resources which are available for domestic utilization in consideration of the former;
- (f) the main directions and principles of scientific and technological progress, as well as of investments;
- (g) the objectives of employment and of the improvement in the standard of living and living conditions; and
- (h) the main duties of regional development as well as of environmental protection.

The methods by which the state controls the economy, paying attention to the autonomy of firms are:

- (i) instruments of indirect economic control, laying down guidelines; and
- (ii) direct decisions and interventions.

The first ones include guidelines for:

- (a) price policy and price regulation;
- (b) financial policy, including the regulation of company income (taxation and subsidies), the finances of the councils, and regulation of the incomes of the workers;
- (c) the monetary and credit policy; and
- (d) the regulation of external economic activity.

The second ones concern:

- (a) the central economic development project and the government action programs;
- (b) central state investments; and
- (c) the operational principles of state market supervision and the rules of distribution of certain products.

Planning is a continuous activity, with the study of flexible and alternative plans, where "Participation by the public is part of the trend of modernization and democratization" of the country (Balassa 1985 p. 50). Firms, cooperatives and other economic organs prepare their plans independently, for their own purposes: they are approved by their own management bodies. The economic units set out from their own possibilities, the conditions and requirements of the market. They take into consideration the effect of indirect economic plans, as well as the direct decisions of the national economic plan.

(See Balassa (1985) for the state economic control organs, the changes in economic policy to bridge the gap between the developed countries and Hungary, taking into account the external conditions and the internal equilibrium in order "to accelerate active adjustment to world economic processes, technical development, the transformation of the production structure, the increase in efficiency, and the modernization of production and of the infrastructure".)

The changes introduced in 1985 in the system of economic control improve the autonomy and initiative of producing companies, they stimulate effective growth, offering incentives as well as applying constraints. "The promotion of market-oriented management and of competition will in coming years reduce the extent of the state regulation of prices. The forms of company income regulation, including the taxation of profits will regroup to the more efficient and the firms will be able to use a larger share of their increasing income than before for investments and to increase the personal income of their staff. The subsidizing of some firms out of the state resources has been reduced considerably and will be reduced further" (Balassa 1985 p. 56).

## 5. SELF-MANAGEMENT

The self-management system, which proceeds from the principle that each development decision ought to be made at that particular management level at which some given goal can be best and most fully achieved presupposes multilevel management, i.e., management at more levels that is the case with centralized systems. A decision is to be referred to a higher level only when it cannot be fully and correctly comprehended and formulated at a lower level.

Two issues arise when choosing a particular level of management: (i) what the goals of the higher levels means to the lower levels under the conditions of self-management; and (ii) what the optimal decisions is, and how it is reached.

Self-management planning requires a very clear differentiation between the planning of development policy and the technology of planning. The technology of planning is a task for expert services.



The relationship between industrial and territorial planning entails:

(a) planning that runs from the single enterprise to the industry as a whole, where the industry is often organized in the form of specific integration of all enterprises in order to divide the production program and coordinate mutual development; and

(b) planning from the single municipality (commune) as the lowest territorial organization, to groups of a few nearby municipalities (smaller regions), up to the republics and provinces, to Yugoslavia as a whole.

(See Stojanovic (1982) for planning procedures from a section in a plant—the smallest organizational unit—to the enterprises to various forms of integration of enterprises to municipalities to republics and the whole federation of republics in the context of Yugoslavia, as well as for the control of plan implementation and the evaluation of corrective measures.)

Stojanovic (1982 pp. 41 ff) classifies some open problems in the Yugoslav system of self-management planning into three groups: (i) problems related to the selection of development priorities (i.e., selection of priorities in the medium-term development of the country, since Yugoslavia is a multinational state); (ii) problems which stem from the industry-territory relationship (i.e., maximization of gross income per employed person versus maximization of gross income per citizen; finding the optimal relation between industry and territory is essential in the process of planning); and (iii) problems from the domain of planning methodology. (See Ackoff 1974, 1978, 1981, Ackoff *et al*, 1984 for optimization of means to a given plan.)

The Yugoslavs have never satisfactorily solved their inflation, unemployment, misallocation of capital, and foreign-trade deficits (Goldman 1983 p. 57). (As to the success of the Yugoslav system, in 1986 its unemployment was 15 % and its rate of inflation 80 %. Within the Marxian school, Marcovic and Petrovic (1979) have dealt with a serious critical elucidation of the concepts of praxis, alienation (in particular alienated labour), self-management and a critique of the bureaucratic establishment in the context of the 1960's and 1970's in Yugoslavia.)

## 6. THE PLANNING OF THE "PLANNING SYSTEM"

Nothing reliably relates growth in one industry to growth in related and dependent industries. Thus we have fuel crises, energy crises, and others. These crises have already forced government to reject the myth of the impersonal market and to plunge into the world of democratic planning.

Some economists believe that there cannot be a satisfactory control of business until the government is freed from the powerful influences of those who manage the large corporations (Gruchy 1974). Different solutions have been proposed for this control:

(a) the "domestication" of private business by establishing a national planning program, or what Clark (1926) described as "social-liberal planning" (2).

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(2) According to this view, large corporations should be placed in an institutional framework in which all sectorial interests, including private business, would be subordinated to the national

(b) the planning of the planning system (Galbraith 1973-75) by a planning authority. Galbraith describes this sort of planning economy of the future as a "new socialism", a non-Marxian type of socialism (3). (According to Heilbroner (1974 pp. 57-58 & 84), if economic development is to be directed in the interest of society there will have to be a "hull-fledged transformation of 'private' capitalism into 'planned' state capitalism.")

There is today a need for both national and international planning, for as Gruchy (1974 p. 246) puts it, "national planning cannot work well in the long run without considerable international planning". The problems of energy shortages and transnational corporations activities cannot be tackled successfully as purely domestic problems. This social control of business is one of the gravest issues of our times.

The social control over the economy in present-day society needs to set up and develop a state system of indicative planning (Galbraith 1973-75, Leontief 1977 Ch. 11). Planning is one of the instruments of state power and should be used to enhance social justice. State planning implies social compromise, social cooperation and consensus (4). This way, planning can avoid the overexploitation of economic resources and reduce the negative side-effects in the natural and social environment of private and public enterprises. Moreover, the economic growth should be assessed on the basis of a broad complex of criteria reflecting indicators of quality of life instead of the merely Gross National Product.

## 7. PLANNING: PROBLEMS AND PERSPECTIVES

Two main arguments have been advanced in favour of planning by Leontief and Galbraith (Leontief and Stein 1976). The first is the need to coordinate the existing forms of government regulations through an *independent agency* that will provide "information to legislators and administrators responsible for national economic policies [...] outlining appropriate methods to carry them out" (Leontief 1982a p. 33) (5). The second is that the 1970's ushered in a new

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interest. "This control could not be effective in an unplanned capitalist system dominated by private business interests with the power to undermine regulatory agencies and to substitute private business welfare for national interest" (Gruchy 1974 p. 242).

- (3) This kind of socialism searches for the position of weakness in the economy. It is not ideological but compelled by circumstance. Galbraith associates poverty, unlike Marx, not with the industrial proletariat as a whole, but with the unskilled and powerless subproletariat and other people at the bottom of the economic pyramid.
- (4) As Myrdal points out (quoted in Gruchy 1974 p. 243), any experiment in the control of private enterprises with the aid of national planning would call for a public support from a combination of workers, low-income farmers and beleaguered consumers. "What is needed is a general agreement between organized labour and organized business that would apply to major sectors of the economy and would be based on a carefully designed, comprehensive and voluntary plan" (Leontief 1982a p. 34).
- (5) As Leontief suggests (1982a p. 33), this independent agency should provide the "information needed to work out a systematic, coordinated approach to the main problems of national and local economic policy. [...] It should be able to anticipate potential trouble spots, the parts of the economy where, to name only a few examples, energy shortages, technological unemployment, population movements, or sudden needs for long-term credits may arise. This

stage in the development of the economy, when government regulation had to concentrate its efforts not so much in managing demand as on solving the problem of supply over the long term. Indeed, the 1970's showed that, in contrast to the preceding period, the problem of increasing scarcity of resources was coming to the fore: I.e., the supply of resources which could not be increased on the basis of purely market incentives or through stimulation of aggregate demand by the government —meaning the industries turning out basis resources (like energy, raw materials, and foodstuff), sections of the infrastructure (like transportation and communications), and finally the rehabilitation, and protection of the environment (6). The need to solve such problems connected with production and supply calls for long-term programming of the national economy even for international programming, for, the interdependence of the different sectors of a national economy needs their coordination (7) not only at the national level but also internationally. (See Leontief 1966 Ch. 7 & 11, 1977 Ch. 11 for a general approach to national economic planning, its methods and problems.) Many projects started today, the so-called industrial reconversion among others, will depend, for their ultimate success, on whether they are coordinated with other projects of development taking place not only in a given national economy but in other parts of the world (8).

Planning authorities are assigned two distinct functions to perform. First, they are to make independent forecast, isolate probable future bottlenecks, and co-ordinate plans throughout the economy. They are also to work in collaboration with similar authorities in other countries so as to ensure that

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agency should not make grand predictions but should elaborate different scenarios, each describing likely effects to any particular combination of national, regional, and local economic policies. This would, in fact, be the only means by which the government and the electorate would be enable to make informed choices among different policies". For Galbraith (1973-75 p. 307) "The state, in short, will take to effects the coordination of which the planning system [the part of the economy dominated by big corporations] is incapable. There will have to be a public planning authority. This, in turn, will have to be under the closest legislative supervision". This planning of the planning system should reflect not the corporation's goals but the public purpose (Galbraith 1973-75 p. 307). A second major problem is the coordination of planning policies as between the national planning systems, for "National planning systems, operating internationally, also require a measure of international planning" (Galbraith 1973-75 p. 311).

- (6) See Leontief (1977 Ch. 6 & 7) for the study of the environmental repercussions of pollution on the economic structure within an input-output approach. (For input-output analysis see Bulmer-Thomas (1982) and Miller and Blair (1985).)
- (7) "Under a planning approach national economic policies are not formulated as independent measures designed to solve particular problems, whether it concerns environmental degradation, energy shortage, inflation, unemployment, or urban blight. They are coordinated actions intended to make the entire economy function more effectively and grow along a carefully projected plan" (Leontief 1982a p. 31).
- (8) The interdependence of the different parts of the economy and alternative paths along which they might advance in the coming years must be systematically explored. "Whether one path or another is followed is not a professional question but a political decision that must be reached by democratic processes" (Leontief 1982a p. 31). Further, "it is not surprising that actions to solve a particular problem create new problems elsewhere. If policy makers act in ignorance of such indirect interrelationships, measures taken by one government or corporate office will tend to cancel out the effects of actions taken by another" (Leontief 1982a p. 32). Therefore, the need of planning at different levels.

the smooth adjustment of production and consumption operates on a global scale: the private planning system, after all, already plans via the multinational corporation for the world as a whole (9).

The kind of planning espoused in this work emphasizes, above all, the *information* importance of the plan. According to Leontief (1977 Ch. 11), the plan should describe the development of the economy as a whole, including its key sectors (industry, agriculture and transport), and also the federal and local budgets for 4-5 years ahead. Leontief asks for several alternative scenarios to allow a choice of possible ways to attain a given set of goals. This analysis of the economic structure can, indeed, "provide a suitable framework for a concrete [...] description of alternative methods of production and the realistic realization of alternative paths of technological change" (Leontief 1977 p. 152), for it is essential to analyze the potential effects on the economy and society of new technologies. (See Leontief and Duchin (1985) for the effects of the implementation of microelectronics on the economy and society; Leontief (1966 Ch. 9 & 10) for the economic effects of disarmament; Leontief and Duchin (1983) for the effects of military spending on civilian technology; and Leontief (1985) for the choice of technology.) This way, different scenarios can be worked out for different economic and social policies that could permit the country to reap the benefits of the new technologies while mitigating their disruptive effects.

The choice between alternative scenarios is the key to rational planning. Such scenarios should be worked out not only on the national but also on the regional and local levels and should be duly dovetailed with each other. (According to Leontief (1977 Ch. 11 & 1982a) an *autonomous government* agency should be set up to work out these scenarios (5).)

The problem of participation, which we understand as the free participation in determining public policy and the control of public affairs, is related to the problem of power and bureaucracy. Participation should involve:

- (i) the choice of long-term goals;
- (ii) the choice of the optimal means to achieve these goals; and
- (iii) the justification of both means and goals.

Instead of dealing with endless ideological debates, participation, in any political regime whatsoever, should be measured, for, as Alexander *et al.* (1975 p. 38) observe, "only the people can guide the process of organic growth in a community. They know the most about their own needs".

## 8. AGAINST UNEMPLOYMENT AND INFLATION

Inflation is the product of a plurality of causes. If we recognize a diversity of causes, we will take an eclectic view of remedies. This means that will not allow dogma to govern prescription. We are Keynesian with a difference: we

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(9) Here it is necessary the use of complex input-output tables and precisely specified micro-targets. Planning authorities ought not simply to coordinate the plans of others; they ought also to impose targets of their own (concerning, say, the optimal rate of growth or the maximum tolerable level of unemployment) and to have a clear order of priorities.

are convinced that policies intended to combat recession and inflation via the manipulation of total demand will only succeed in the small firm sector, in the “market system”, and that the general market regulation favoured by Keynes will fail to stabilize the world of large corporations, the “planning system”, which must for that reason become subject to specific and direct controls on wages and prices instead.

Here we envisage the formation of an efficient “mixed economy”: a combination of public and private sectors, development of legislative controls over the activity of big corporations and market regulation methods (10), and the formation of mechanisms for public control over the economy, which would make it possible to exert a purposeful influence on the course of development. Legislative control over the formation of prices (primarily on the products of big corporations) and incomes (wage rates, established through the mechanism of collective bargaining and profits), the need for an egalitarian legislative policy of redistribution of incomes. A system of national and regional democratic planning for using *guidelines* for the development of the corresponding industries and legislative influence on the formation of the volume and structure of the final consumer demand for services in the given sphere. This includes socializing big companies through legislative supervision over their activity and to promote the development of what Galbraith calls “market system” through small and medium-scale enterprises, increasing incomes within this system and make these incomes more reliable, and strengthening its positions vis-a-vis the “planning-system” (i.e., the part of the economy under the big corporations). The reforms suggested below —Section 9— is what Galbraith (1973-75 Chapter 27) has called “The Socialist Imperatives”, objectively conditioned (3).

The remedy against unemployment and inflation is to keep the total demand in the economy in close relationship to the supply of goods and services that can be made available when people are fully employed. This rough equivalence between total demand and total supply is the framework. As the economy spands, so will public and private spending from borrowed funds. This must be controlled so that total spending does not increase more rapidly than the readily available supply of goods. The increase in public spending from borrowed funds can be controlled by fiscal policy, the increase in private spending by monetary policy (Galbraith & Salinger 1979).

## Remarks

1. Public expenditure should be governed by public needs.
2. The public and the corporate purposes diverge. It is only on the state (i.e., through the legislature) that the public must rely for the assertion of the public interest.
3. Keynesian militarism is a world threat, aside from a waste of human and social resources.

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(10) Big is beautiful because large tasks require large organizations. And Small is also beautiful, since small organizations remain responsible for a large number of new products, processes and services.

4. Nationalization of enterprises must be tested by results (11).
5. The test of economic achievement is not how much we produce but what we do to make life more pleasant and tolerable.
6. The introduction of guidelines should be preceded by a six months freeze on all pay and prices to break the structure of inflationary expectations.
7. The policy should be worked out by a tripartite commission representing all sides of industry (labour, management and the public). (The recommendations of this commission should be legally enforceable.)
8. The policy should not be temporary but permanent.
9. Controls must be both comprehensive and integrated into the whole complex of government policy measures.
10. Incomes should be planned in such a way as to narrow the gap between the rich and the poor.
11. Controls should apply only to the planning system, not to the market system.

## 9. WHAT IS TO BE DONE

The economic measures we propose are necessary if we want the economy to work without high unemployment, inflation, restraining effect of low demand and idle capacity. These actions extend to all who have achieved a measure of control over their incomes.

Public ownership is indispensable in such fields as railways, highways, electricity- and gas-supply industries and energy industries in general, telecommunications, social services, defense-related industries, big corporations in general and financial and merchandizing corporations as well as housing industries and scientific and technological research organizations. Nationalization is a practical matter to be tested by results. As Galbraith asserts (Galbraith and Salinger 1979 p. 65), "The problem of modern socialism is not a shortage of faith but a shortage of performance". Extension of the area of public ownership is only possible politically and economically as the reputation for efficient public management is affirmed.

(a) Large business corporation should respect their wage restraint and not increase their prices. (Public price restraints replace the private price-fixing of the large corporations.)

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(11) The public managers are to be given general targets to reach, but they are also to be given relative autonomy in the techniques they employ to attain those ends: "Autonomy does not mean less public-accountability. On the contrary, it means more. But it is accountability not for method, procedure, or individual action, but for result" (Galbraith 1965 p. 98). The nature of these results, moreover, is clearly economic, the public corporation being assigned the duty to finance expansion out of its own earnings and the obligation to apply orthodox standards of cost and return: "This is not a capitalist test of efficiency, it is the universal and only test" (Galbraith 1975 p. 20). Socialization means a new source of public finance (corporate profits flowing into public coffers) and the end of an old abuse (corporate profits flowing into private pockets). The public enterprise in the parliamentary democracy is publicly owned for a purpose. The most obvious purpose is to exercise a measure of democratic control over the enterprise. This control ensures that the firm procedures and decisions will be in the public interest, that its decisions are sound and sensible and serve the general good (Galbraith 1965 p. 93).

- (b) Profits in big corporations should be in line with past experience.
- (c) Big trade unions claims should be limited to what can be afforded, on the average, from increased productivity.
- (d) The pay of civil servants should be consistent with the general restraint.
- (e) Minimum farm prices, minimum wages and transportations cost should be set by public action.
- (f) Some price fluctuation for farm products is inevitable.
- (g) Small industries, service enterprises and the self-employed should not be controlled. (Here the market, even though imperfect, still works.)
- (h) There should be a specific differential between the lowest-paid worker and the highest-paid executive.
- (i) Taxation must be an integral part of this policy, a progressive policy of taxation, with more taxes on the affluent. (It reaches the incomes that are untouched by wage, salary and price restraint.)
- (j) Equity should also be served by relatively stiff inheritance taxes.
- (k) Social insurance and pension funds should be unaffected.

Union support is vital to the success of this policy. The negotiation and administration of such a policy is possible because big corporations, unions, farm federations and white-collar groups are in workable numbers. Where the market works, though imperfectly, one keeps hand off. Prices of the small firms, farmers and self-employed are not touched, except as minimums are set by government.

The efforts needed to remedy the weakness of the market system include.

- (1) General exemption for small businessmen from all prohibitions in the antitrust laws against combination to stabilize prices and output.
  - (2) Direct government regulation of prices and production in the "market system".
  - (3) Strong and effective encouragement to trade union organization in the market system.
  - (4) An extension and major increase in the minimum wages.
  - (5) A cautiously revised view of tariff protection in the "market system".
- An international agreement stabilizing prices and production by official action or a tariff.
- (6) A strong presumption in favour of government support to the educational, capital and technological needs of the market system.

The solution is to bring return in the "market system" more or less into line with that in the "planning system" and to provide an alternative income to those who are not employed or cannot be employed.

The legislative must acknowledge the existence of domestic imperialism in a wide range of markets; comprehend that there is no automatic tendency towards equalization of factor-rewards as between the two subsystems of modern economy; and intervene in the cause of social justice by assisting the disadvantaged to acquire power of their own.

Thus the government should itself either perform or finance research and development on behalf of small business. This represents a valuable external economy (particularly since each small farmer or entrepreneur cannot effort his own laboratory, or even to make a modest contribution toward co-operative effort), and may also lead to the improvement of many vital products (such as

low-cost housing, a field in which technological advance is neglected by the technostructure. The results of government-sponsored research and development projects should, of course, be made generally available (should not, in other words, be protected by secrecy or patents); and their implementation should be facilitated, in case of need, by government provision of capital and even by government advertising campaigns.

The government should lend its support to schemes which seek to improve the bargaining power of the small and the weak (say, by aiding them to form coalitions and cartels, to consolidate and merge, to limit new entry into a trade). Further measures along these lines are clearly in the national interest since they help to strengthen the position of the "market system" as a whole (and of each individual beneficiary within it) and since they thus help to improve the domestic (inter-systemic) terms of trade (by raising the prices charged by small firms relative to those charged by large corporations with pre-existent original power).

The concentration of power that destroyed the market and made such a policy necessary has also reduced the number of organizations with which the government must deal. That means regulating incomes that are already regulated by a few unions and prices that are already regulated by few big corporations. The additional bureaucracy need not be large.

These reforms bring with them the need of national *indicative planning* and a sense of common national interests between the different economic agents through social consensus and cooperation. Power equalization is not simply a domestic problem; and in an open economy it is therefore incumbent on the government to ensure that adequate countervailing power operates internationally as well as at home. On the international scene, the large firm can protect itself through its sheer size and through the possibility of becoming multinational; while the small firm, by contrast, may need government support to its power, in the form of quotas, tariffs and internationally commodity agreements. (These measures are, admittedly, interferences with "free trade"; but it must be recognized that the so-called "free trade" has unwelcomed redistributive consequences insofar as the weak tend to suffer more than the strong from the bracing cold shower of international competition. The strong have already scaped from the shackles of the market; it is only just that the weak should now be assisted to do so as well.)

The government should help to redress the inter-systemic imbalance of power, but it should not forget to correct the intra-systemic imbalance as well; and should in particular help to buttress positions of weakness within the "market system", where many of the greatest abuses of power are today to be found.

## 10. UPSHOT

The free market, so praised by neoclassicists, is gone as Galbraith has repeatedly showed. (See also Leontief (1982b, 1983) for the state of economics and more criticisms to present day research in economics.) Modern economy is a mixture of two systems: the planning one with big corporations, large farmhouses, big labour unions and the government; and the market one with



small enterprises, farmers, and consumers. It is the large corporations that set the price. Governmental regulations are the only protection for small business and the public. Planning is used not only by big corporations but also to regulate socialist economies and should also be used to guide the economic growth of Third World countries. (In the later case, the government must play the leading economic role, for it is the only social institution with the financial resources and the political power needed to do so.)

Today the dilemma is not freedom versus planning, but that between democratic and authoritarian planning: between participative and decentralized planning on the one hand, and bureaucratic and rigid planning on the other. The choice between an alienating planing and a genuine one is not a technical choice to be made by experts but a political and social choice to be made by the public (Leontief 1977).

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